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RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RUEHJO/AMCONSUL JOHANNESBURG 6741  
RUEHTN/AMCONSUL CAPE TOWN 4331  
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SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA  
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND  
TREASURY FOR OAISA/RALYEA/CUSHMAN  
USTR FOR COLEMAN

SIPDIS

E.O. 12958: N/A  
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)  
PGOV, SF  
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER MARCH 16, 2007  
ISSUE

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11. (U) Summary. This is Volume 7, issue 19 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Foreign Reserves Increase
  - SA Economic Action Set to Slow
  - Vehicle Sales Down
  - Average House Cost R911,800
  - Hunting Law's Reform Postponed
  - Cement Exports Fall As Construction Expands
  - Alcoa Bids for Alcan Raises Questions About \$2.7 Billion Coega Aluminum Smelter
- End Summary.

Foreign Reserves Increase

12. (U) According to the South African Reserve Bank (SARB), net gold and foreign exchange reserves increased from \$23.97 billion at the end of March 2007 to \$24.59 billion at the end of April 2007, reflecting further improvement in the South Africa's financial position. The SARB attributed the increase in reserves to a combination of valuation adjustments as well as SARB foreign exchange operations. The SARB has previously said it will continue to build its reserves by buying foreign exchange when market conditions permit, but will do so cautiously to avoid affecting the value of the rand. Analysts welcomed the rise in foreign exchange reserves, saying it would be favorable for the South African economy in the long run and ease speculation and investor's fears. Economists expect the build-up of reserves to continue at a steady pace, possibly accelerating, as a result of the stronger rand exchange rate. The SARB brought a long-standing negative reserves position into balance early in 2004 with the elimination of its loss-making forward foreign exchange book, historically seen as a weak point for the rand. Since then, SARB has gradually increased net reserves, although the total still lags behind comparable emerging markets. (Fin24, May 8, 2007)

SA Economic Action Set to Slow

13. (U) The South African Chamber of Business' (Sacob's) Business Confidence Index (BCI) increased to 101.9 points in April 2007, 2.4 points higher on a month-on-month basis, but 1.2 points lower on a

year-on-year basis. "Although April 2007 may be the start of another wave to higher levels of the BCI, domestic economic developments indicate that the moderation of business confidence may continue throughout 2007," Sacob said. According to Sacob, the improvement in the BCI in April could largely be ascribed to the positive global financial market sentiment that spilled over onto the domestic financial markets. It pointed out that although the real domestic economy made a marginal positive contribution to April's increase in the BCI, there are definite signs of a slowing tempo in domestic economic activity. Sacob recommended that special attention be given to the reasons for and the appropriate remedies for monetary excesses, higher inflation, types of financial inflows, the current account deficit and excessive domestic demand. Also, capacity and physical constraints that stem from the public sector should be urgently addressed. Notwithstanding a challenging economic environment at present, Sacob is confident that real domestic economic developments suggest that while business confidence will continue to moderate, it could remain at relatively high levels. (I-Net Bridge, 8 May 2007)

#### Vehicle Sales Down

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14. (U) South African new vehicle sales declined by 4.4% year-on-year in April as higher interest rates and rising debt levels curbed spending on passenger cars. The National Association of Automobile Manufacturers (Naamsa) said the industry sold 45,590 units in April 2006 compared to 43,588 vehicles during April 2007. New passenger car sales were down by 15.9% to 25,912 units, mainly due to interest rate hikes between June and December last year to curb rising inflationary pressures, high consumer spending and record high household debt levels. However, light commercial vehicle sales and heavy trucks sales increased by 20.8% and 17.9% in April, respectively, reflecting robust economic growth and a buoyant construction industry, bolstered by a huge infrastructure spending drive. Vehicle production is one of the biggest industries within

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South Africa's manufacturing sector and accounts for 17% of gross domestic product.

#### Average House Cost R911,800

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15. (U) According to the ABSA House Price Index, nominal house price growth of 15.5% year-on-year was recorded in April 2007, bringing the average price of a house in the survey to R911,800 (\$130,300). The Index recorded an average price increase of 15.6% for the first four months of 2007. House prices increased by 22.7% and 15.2% in 2005 and 2006, respectively. Absa researchers said that house price growth in 2007 could be expected to continue the downward trend to about 9% before improving again in 2008. They stated that short-term risk for interest rates was on the upside, pointing to high fuel and food prices as concerns on the inflation front. (I-net Bridge, May 7, 2007)

#### Hunting Law's Reform Postponed

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16. (U) Minister of Environmental Affairs and Tourism Marthinus Van Schalkwyk announced that the date of effect for the Protected Species Regulations has been moved forward from June 1, 2007 to February 1, 2008. Van Schalkwyk's decision was prompted by concerns raised by some Provincial Environmental Ministers who complained that there were some challenges which would make it difficult to implement the regulations by June 1, 2007. Van Schalkwyk plans to phase out the controversial practice of "canned hunting" which is regarded as reprehensible and unethical, through the introduction of the regulations. His office gave no details of the challenges stated by the provincial Ministers. However, the new regulations seek to outlaw the hunting of captive-bred predators within two years of their release into a game farm for the purpose of hunting. North West Agriculture, Conservation and Environment Minister Mandlinkosi Mayisela welcomed Van Schalkwyk's shifting of the implementation date to next year. He said this gave them some "breathing room" to engage further in discussion with the National

Minister, with the hope of striking a favorable compromise for his province. Mayisela said that over 350 lions are hunted per year in North West province. While waiting for the regulations to come into effect, the Department of Environmental Affairs and Tourism will convene countrywide information sessions to ensure that the public and all other stakeholders are ready for implementation and compliance by February 1, 2008. The Department encouraged interested parties to apply for licenses or permits to avoid an unnecessary backlog on the effective date. The new regulations were developed in terms of the National Environmental Management Biodiversity Act 10 of 2004. (Business Day, May 7, 2007)

#### Cement Exports Fall As Construction Expands

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17. (U) South Africa's cement exports dropped by 34% in 2006 as the country's construction boom expanded. Only 156,256 tons of cement were exported in 2006, or just 1% of exports, according to the latest Cement and Concrete Review published by the Cement and Concrete Institute. Cement exports have been declining for the past ten years with the exception of two peaks in 1999 and 2002. The review attributed the decline to rising local demand, which limited the amount of cement available for export, and the strength of the rand, which decreased the competitiveness of South African exports. South African cement exports typically go to neighboring countries and Indian Ocean islands. All four South African cement manufacturers have begun importing clinker or cement to meet domestic demand and total cement imports were about 1 million tons of cement product in 2006. Investment in new production capacity is also up. Pretoria Portland Cement, the largest producer, is expanding capacity by 1 million tons per year at a cost of R1.68 billion (\$240 million). Lafarge South Africa, the local subsidiary of the French building materials group, is expanding capacity by 1 million tons at a cost of R1.2 billion (\$171 million). NPC, owned by Cimento de Portugal, is expanding its Simuma plant in KwaZulu-Natal as a cost of R800 million (\$114 million). Most of these projects are scheduled to come on stream in 2008. (Business Report, April 25, 2007)

#### Alcoa Bids for Alcan Raises Questions About \$2.7 Billion Coega Aluminum Smelter

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18. (U) U.S aluminum group Alcoa's hostile bid for Canadian rival Alcan has raised questions about the expected start date of Alcan's \$2.7 billion Coega aluminum smelter project near Port Elizabeth. The concern is that if the bid is successful, the start date could be delayed as Alcoa integrates Alcan and reassesses the project's potential. The same thing happened in 2003 when Alcan bought the French group Pechiney, which completed the first feasibility study in 2001. Local analysts believe it would only be a delay, because all the top aluminum producers need to increase output, the Alcoa group has a many less efficient smelters in North America and Europe, and the Coega smelter would compare well in any project pipeline in a combined Alcoa-Alcan group. The Coega smelter moved closer to a start date last November with the signing of a 25-year power supply contract between state power producer Eskom and Alcan. The next steps are the completion of an engineering study and the arranging of project finance. The Coega smelter could eventually become the world's largest aluminum smelter if Alcan exercised an option to extend the facility to 1 million tons. (Business Report, May 9, 2007)

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